HOUSING MARKET OUTLOOK

Metro Victoria

Canada Mortgage and Housing Corporation

FALL 2005

2006 at a Glance

- *Victoria's housing markets maintain strength*
- *Resale market sales level off, price uptrend slowing*
- *New homebuilding continues at brisk pace*
- *Rental market vacancy rate to remain low*
- *New home market price increases continue*
- *West Shore lot sales escalate, prices rising*

Resale Market.....1
Price increases to slow; sales ease slightly in 2006

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Homebuilding robust in 05-06

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More new lots available

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Vacancies edge up only slightly

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Renovation activity strong

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RESALE MARKET

Price increases to ease

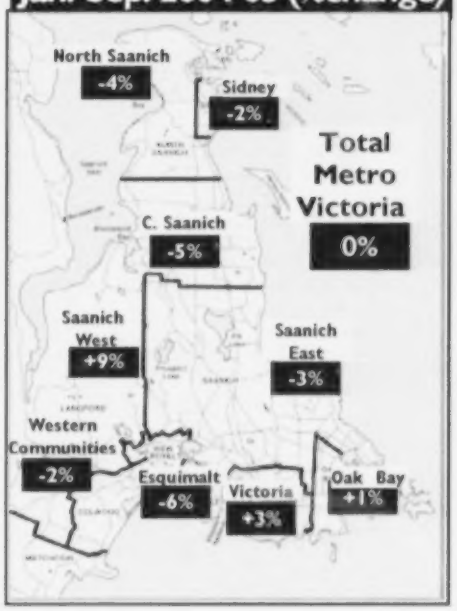
MLS®[1] average prices will continue increasing next year in Victoria, but at a slower rate than in 2003-05. For 2006, average prices are forecast at $467,000 for houses, $342,000 for townhouses and $242,000 for condo apartments.

Home **sales will remain strong in 2006**, easing slightly from this year's hectic pace. In 2005, growth in condo apartment transactions is leading the anticipated increase in total sales.

continued on page 2...

[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

House Sales by Sub-market, Jan.-Sep. 2004-05 (%change)



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Canada

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HOME TO CANADIANS

Resale Market ...continued from page 1

Single family home sales are forecast to slip below 2002-05 levels next year, coming in at 4,300 this year, and 4,220 in 2006. Condo **apartment and townhouse sales reflect rising demand** for lower-priced homes, surging to 2,390 apartment and 775 townhouse transactions in 2005 before edging down slightly in 2006.

Metro Victoria 2005 **single family home sales are on par with last year's** levels for January-September. Markets with more sales in 2005 than last year include **Victoria City, Oak Bay, Saanich West** and some areas of the **West Shore** notably Langford, Sooke and the Highlands. A good selection of mid-range and less expensive houses, as well as well-established or emerging recreational/cultural and other amenities in these markets are driving sales higher. (see map on page 1 for details).

Next year's house sales are forecast to dip 1.9% but **West Shore** house sales will again improve on 2005 levels. Neighbourhoods established in recent years (such as Bear Mountain, Sun Rivers, Royal Bay) will continue to expand and attract buyers for both new and existing homes.

Average single family house prices will rise 18.6% in 2005 and a further 4.8% in 2006 as demand eases slightly but remains buoyant. A limited supply of listings together with **strong buyer activity** in all market segments is pushing prices higher this year.

Prices are continuing the uptrend first noted in early 2001 when demand for homes began to escalate. This autumn, more listings are expected to come on to the market, easing the undersupply and resulting in **less upward pressure on prices**.

Single family home listings are lagging behind last September's levels by 6%, maintaining upward pressure on prices. Low interest rates and strong employment growth are keeping market demand buoyant and the market continues to favour sellers.

Year-to-date 2005 figures show this spring's exceptional sales-to-active listings ratio (71% in May) for single family homes has now returned to 40%. Houses are taking an average of 36 days to sell, similar to 38 days last year. Year-to-date, the average sale price is up 21%. These figures indicate the single family **house market still favours sellers**, and is not forecast to return to balanced conditions until mid 2006.

MLS® House Sales by Market

3rd Quarter 2005, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$448,019	31	1,794
Oak Bay	$663,931	33	2,526
Esquimalt	$388,241	25	2,070
Saanich East	$514,760	24	2,297
Saanich West	$415,974	24	2,029
Central Saanich	$548,705	37	2,551
North Saanich	$816,557	64	3,031
Sidney	$419,797	32	1,885
West Shore	$404,719	37	2,094

Source: Victoria Real Estate Board, CMHC Victoria

Esquimalt Houses Most Affordable In Region

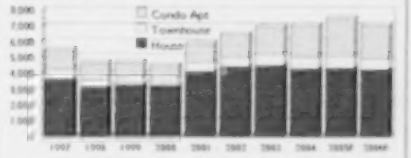
Esquimalt was again the **least expensive house market** in Metro Victoria during third quarter 2005, with an average house price of $388,241.

Saanich West, Sidney and the **West Shore** were also less expensive than other areas, all averaging below $420,000. **Victoria City** was the only other market with average prices under $500,000.

Oak Bay and **North Saanich** continued to lead the **high end of market**, with average prices of $663,931 and $816,557. **Saanich East** and **Central Saanich** both saw averages rise above $500,000.

MLS® SALES

METRO VICTORIA



Source: Victoria Real Estate Board, CMHC Victoria

Condo Markets Heat Up

Metro Victoria's **townhouse and apartment condominium sales increases** will outshine single detached sales performance in 2005-6. These markets also favour sellers, and prices are escalating.

Average townhouse **prices are forecast to approach $350,000** next year. The market has favoured sellers since mid 2002, following four years of buyers' market conditions. During January-September 2005, townhouse sales improved 14%, active listings dipped 3%, and average prices rose 13%. Rising demand together with limited supply is putting **upward pressure on prices**.

Apartment condo price averages are approaching $250,000 in 2005-06 due in part to large volumes of new suite presales. The following market indicators confirmed a **sellers' market for apartment condos** during January-September 2005: sales jumped 29%, active listings rose 26%, and average prices surged 21%. ❖

Victoria *Housing Market Outlook* is published twice annually, in the Spring and Fall of each year. To **subscribe** or to order single reports, call Lisa Preston, CMHC British Columbia and Yukon Business Centre, (605) 737-4088.

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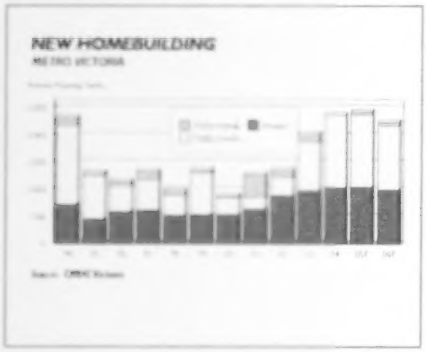
NEW HOME MARKET

Homebuilding on Level

New homebuilding **will surpass 2004's strong results this year before edging down slightly** in 2006. **Single detached houses and apartment condos will continue to dominate Victoria's new home markets,** continuing a trend started in 2002.

Move-up and move-down buyers will remain major players in the new home market through 2006 as equity growth in their current homes improves with the buoyant resale market. **First-time buyers will be less active**, held back by rising interest rates and prices. **Investors account for the third major buyer segment**, attracted by rising real estate prices and strong rental demand.

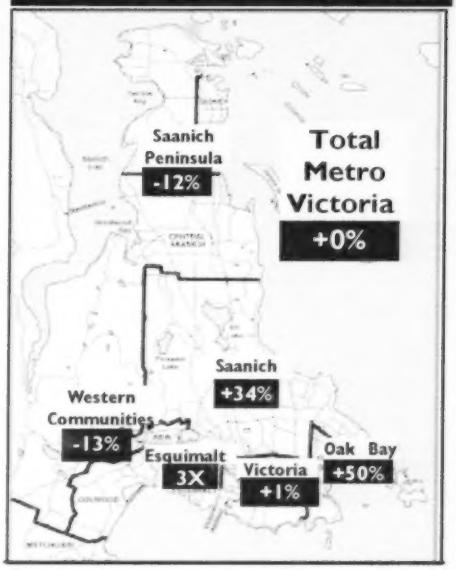
CMHC forecasts **2,420 new home starts for Metro Victoria during 2005 and 2,225 in 2006**. The Capital Region's strong construction forecasts are in line with B.C. homebuilding trends.



New House Demand To Continue Strong

Single detached house starts are expected to **hover around 1,000 units annually in 2005-06** as strong buyer demand continues. New housebuilding activity is now twice as strong as it was in 1998-2000.

New Housing Starts, Jan.-Sep. 2004-05 (%chg.)



Single detached housebuilding is 7% off last year's pace for the January-September period. Demand for new houses continues to be driven by **strong resale market sales, high consumer confidence, solid employment growth, rising prices** and **low interest rates**.

New house supply and demand will stay in step through 2006, **keeping the market balanced**. The speculative house market remains small but its slow expansion will drive a **slight rise in inventories**. Most new houses are presold before finishing, keeping the market in balance. **High lot costs, growing development fees** and **escalating insurance and building supply costs** continue to challenge homebuilders.

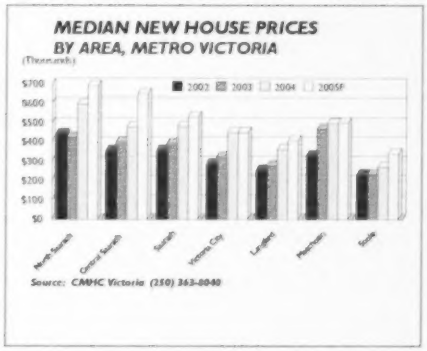
West Shore markets will strengthen their dominance of as Metro Victoria's **new house markets,** approaching a two-thirds market share, up from 59% in 2004. **Langford** will overtake Saanich as the strongest single municipality, with 30% of new Metro Victoria's 2005 housebuilding. Saanich will garner 20%, in second place. **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** will dominate the region's new subdivision development through 2008.

New House Prices Surge

Strong demand and higher building costs are **pushing new house prices to new highs.** Median new house prices are forecast to rise 15% in 2005 and **a further 5% in 2006**.

The **selection of affordable new suburban homes is narrowing** as both lot and house prices rise. **View Royal, Langford, Colwood** and **Sooke** tend to favour modest new homes with correspondingly lower prices in several neighbourhoods.

Higher-end new houses are located in **Saanich, North Saanich, Oak Bay** and on large properties in the **West Shore**.



Three-fourths of new houses built in 2005-06 will contain **two storeys**, with median prices for this house style at $470,000 in 2005. Prices for **1½ storey houses** will also rise in 2005, with a forecast median of $433,000 from $400,000 in 2004. Half of all **one storey houses** will be priced under $360,000, compared with $280,000 in 2004.

New Home Market.. continued from page 3

New Townhouse Market Undersupply Continues

Despite robust new townhouse starts in 2005, the **market remains undersupplied as strong demand perseveres.** During the next 15 months, starts are forecast at 150-165 annually, up from 122 in 2004.

During the first nine months of 2005, **120 townhouses got underway,** up from 86 started during the same period in 2004. At September 2005, **21 newly completed townhomes were available for sale**, triple last year's level. New townhouse sales are up 40% from last year's level.

New townhouse **projects are constrained by high land prices** caused by a **shortage of suitably zoned and serviced sites**. **Family-oriented townhouses,** containing three or more bedrooms, dominate the market at over 70% of market share this year. Their **market share has been rising steadily**, from 42% in 2001 to 47% in 2002, 56% in 2003 and 69% in 2004.

In 2005, median **prices are forecast to climb 5% to $350,000 for a new three bedroom townhouse,** as strong sales and a limited supply of new units drive increases. The 2006 price increase is also expected to be close to 5%.

New Apartment Condo Market Expands

Several new apartment condo projects are in the pipeline and expected to keep 2005-06 starts close to 2004 levels, meaning **builders will maintain a torrid pace** well into 2007. At the same time, **few new rental projects will break ground,** although some investor-owned condos will help satisfy robust rental demand.

Metro Victoria inventories remain low this autumn, with just 28 new apartment condos completed and unsold at September 2005. **The market is classified as oversupplied** due to the high volume of units (1,167 at September 2005) under construction. However, over **two-thirds of these suites are pre-sold**, indicating strong market demand.

During the first nine months of 2005, **649 apartment condos completed and 636 sold** keeping inventories low. Strong demand for **luxury** condos, **trendy** downtown units and **modest suburban** suites is driving sales.

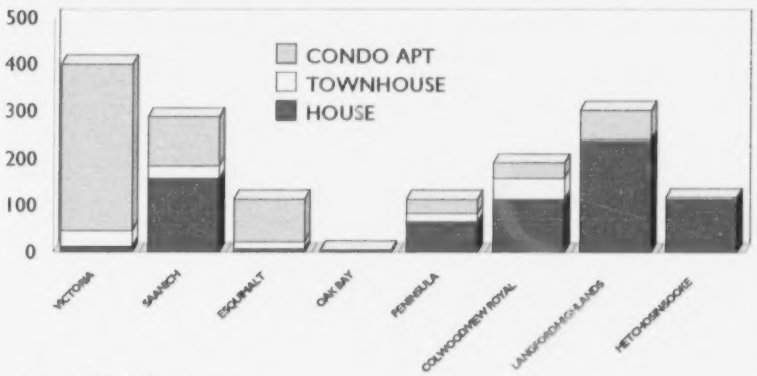
This year's **most popular price points are $140-160,000 for one bedroom suites** and **$200-220,000 for two bedroom units**. Many suites sell for considerably more, depending on views and project amenities.

Median prices are forecast to trend up through 2006, after rebounding last year from 2003's dip. Rising construction costs, together with significant demand, are factors in rising condo prices.

New luxury downtown condos in prime locations (waterfront or waterview) will maintain upward pressure on prices through the coming months. However, **median prices will be tempered** by variations in product mix during 2005-06: a moderate proportion of luxury vs. affordable or midrange suites is expected next year. Median new **apartment condo prices will rise to $289,000** in 2005 and $299,000 in 2006.

Victoria City redevelopment sites will garner the largest share of new condo development, although **Sidney**, **Central Saanich, Esquimalt, Saanich** and the **West Shore** will also play a role. **Langford** and **Colwood** will lead West Shore markets in condo construction again in 2006. ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA
January-September 2005



Source: CMHC Victoria

West Shore markets lead 2005 homebuilding in Metro Victoria.

Land Prices Rising, Sales Steady

Single family lot **prices are achieving new highs this year** in Metro Victoria, and the number of sales is similar to last year. **West Shore markets dominate lot sales**. At the same time, sales are declining in other Metro Victoria areas due to supply constraints.

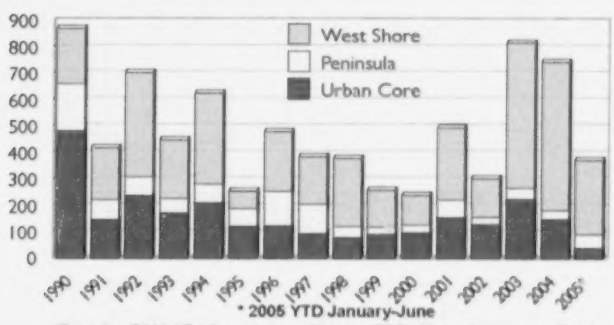
The median price for serviced lots in the six months ended September 2005 included **$329,000** in **Saanich**, **$304,500 in North Saanich, $227,000 in Central Saanich**, **$143,500** in **Langford, $265,000 in Colwood** and **$265,000** in **Metchosin**.

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently sold. Land prices per unit in 2005 range from $37-65,000 for apartments to $65-99,000 for townhouses.

Single family dwelling **land supply remains robust since its jump in 2003** (see chart below) as more lots are created in the Capital Region. Supply will feed demand as more new lots, **most located in West Shore markets**, come on stream through 2006.

The ongoing **shortage of land in the urban core,** combined with rising construction costs will **erode housing affordability through 2006**. Housebuilding is growing in 2005-06, and the region-wide lot supply constraint **is pushing lot prices higher**. New subdivisions in **Sooke, Langford, Colwood** and **View Royal** will improve lot supply through 2006. ❖

HOUSE LOT CREATION
BY AREA, METRO VICTORIA



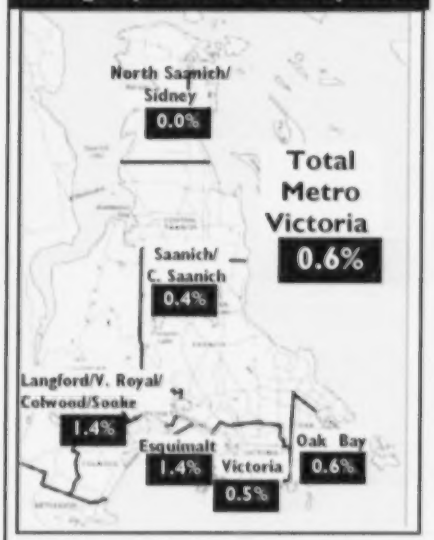
Graph: CMHC Victoria Data: CRD Development Review

Vacancy rate low, stable

Rental apartment vacancies are expected to remain low through 2006. This year, vacancy rates are expected to hold close to last year's level of 0.6%. Rates will then edge up slightly in 2006. Average rent **increases will exceed 3% annually,** overtaking the inflation rate. Selection of available **rental apartments will be limited** in most Metro Victoria submarkets through 2006. The **rental townhouse market** will also experience low vacancies and rising rents in 2005-06.

Market rental construction will play a minor role in construction of new multi-family projects in 2005-06. **Ongoing barriers to rental development** include high land costs, municipal DCC's, weak industry response to municipal incentives for affordable housing, and limited non-profit financing from government. Investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects**.

Victoria Rental Market, 2004
Average Apartment Vacancy Rates



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ECONOMIC OVERVIEW

Economic Growth Strong, Steady in 2006

Metro Victoria economic growth will **mirror BC's strong growth** during 2005-06. CMHC forecasts provincial GDP growth at 3.5% in 2005 and 3.3% in 2006.

Rising net migration will drive housing markets in Victoria through 2007. Migration improvements are a catalyst to housing market expansion throughout the province. BC interprovincial migration recorded a net inflow of 7,080 last year, expected to rise to 9,000 in 2005 and 10,500 in 2006. **International migration** continues at a steady pace (27-29,000 annually).

Metro Victoria population is forecast to grow 1.2% next year, hitting 342,800. In 2006, **net migration to Victoria will rise** in tandem with B.C. trends, improving to 3,050 from 2,700 in 2005.

Victoria employment growth of 3.2% is anticipated this year, followed by a further 2.2% in 2006. Employment growth will be led by **construction, retail trade, finance, insurance** and **real estate,** while slower growth will occur in **health care, manufacturing,** as well as **defense and primary industries**. No growth is anticipated in **public administration.**

Metro Victoria's **unemployment rate** is expected to remain under 5% over the next 18 months. Unemployment dipped below 4% in mid 2005, on the heels of last year's two-decade low of 5.3%. BC unemployment will remain close to 6.1% in 2005-06.

At June 2005, the **value of major capital projects** proposed, planned or under construction in Metro Victoria surged to **$4.7 billion**, up from $1.8 billion last fall. Major projects **scheduled to break ground in** 2005-06 include **Castana**, **Dockside Green** redevelopment of **Oak Bay Beach Hotel** and **Belleville Street Terminal redevelopment.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, the Railyards, Selkirk Waterway, Bear Mountain Golf Resort, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

Metro Victoria's expanding economy is focused on **tourism, construction, education, high technology** and **film production**. Victoria is home to **BC's second largest technology market** after Vancouver.

Tourism is expected to continue to expand through 2006. This summer's **cruise ship visits** improved on last year's levels by 10%. **Airport traffic** is on an upward trend, rising 6% in 2005. BC Ferries reports slightly less travel to Victoria this year than in 2004. Year-to-date 2005 results show the **strongest hotel occupancy rate in Victoria in six years**. Tourism Victoria expects **moderate growth in tourism revenue** for 2005-06.

Growing institutional investment, including major projects at **Royal Roads University, CFB Esquimalt** and **UVic** will provide a significant economic boost well beyond 2006.

Mortgage Rates Up in '06

Mortgage rates will edge up 0.25 per cent in 2005 and a further 0.50 per cent next year.

One, three, and five year closed mortgage rates will rise slowly but remain within the following respective ranges: 4.75-5.75, 5.25-6.25 and 5.50-6.50 per cent.

Mortgage rate discounts will remain available as an important competitive instrument over the forecast horizon. ❖

Homes Less Affordable

Rising home prices and mortgage rates mean higher **qualifying income** for purchasing a home. In 2006, qualifying income required for purchase of average-priced houses **will shoot up to record levels, forecast at $115,702**, from $109,968 in 2005.

Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2004 and CMHC forecasts for 2005-06 (see page 8 for details). ❖

Housing Affordability Partnership (HAP) is a cross-sectoral group working to highlight awareness of emerging housing issues and opportunities.

www.housingaffordability.ca

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Renovations See Strong Growth

Metro Victoria renovations continue to expand, and next year's project volumes and average renovation values are both forecast to improve on 2005 levels.

Buoyant resale markets, beginning in 2002, are driving the renovation market expansion. Many buyers prefer to **purchase and make improvements** to existing housing instead of buying new homes. High **development and lot costs** and an **aging housing stock** are keeping this decade's renovations well ahead of levels achieved in the 1990s throughout Victoria.

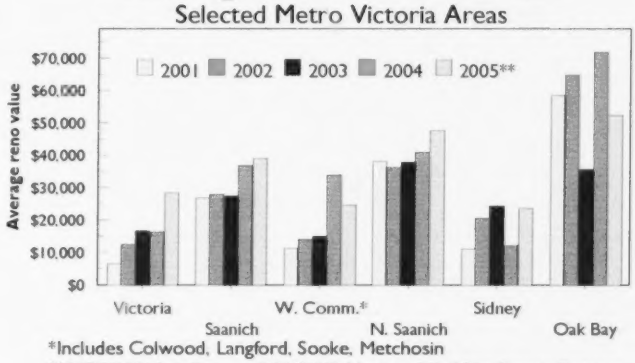
During the first nine months of 2005, the **number of building permits issued for Metro Victoria residential renovations** rose 9%. The largest gain was seen in **Oak Bay**, with a 54% increase from 2004 levels, followed by **Langford** at 34% and **View Royal** at 32%. The core munjicipalities of **Victoria City, Saanich** and **Oak Bay** account for over two-thirds of the residential renovation permits issued in all of Metro Victoria.

January-September 2005 Metro Victoria average renovation values **grew 7% from** 2004 levels. **Oak Bay** led area markets, with average residential renovation permit values of $52,425. **North Saanich** was next highest, at $47,871. Average permit values in **other area markets ranged from $17,201 through $39,024**.

The trend to higher renovation spending reflects **more substantial projects** as well as **rising materials and labour costs**. Current homeowners and new purchasers are adding **decks** or **more living space**, renovating for **home offices**, **secondary suites** and **media rooms**, as well as more traditional **kitchen and bathroom updates**.

Average Renovation Values

Selected Metro Victoria Areas



*Includes Colwood, Langford, Sooke, Metchosin
**2005 YTD Jan.-Sep. SOURCE: Municipal Building Permit Reports

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For further Market Analysis information **contact Peggy Prill** (250) 363-8045.

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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

October 2005

RESALE MARKET	2003	2004	2005F	2006F	Chg
MLS® Listings	9,063	10,329	10,400	9,900	-4.8%
MLS® Sales					
Single-family	4,477	4,285	4,300	4,220	-1.9%
Townhouse	744	714	775	725	-6.5%
Condo Apartment	1,712	2,018	2,390	2,050	-14.2%
TOTAL	*6,933*	*7,017*	*7,465*	*6,995*	*-6.3%*
MLS® Price					
Single-family	$328,005	$386,045	$458,000	$480,000	4.8%
Townhouse	$246,500	$299,275	$335,000	$342,000	2.1%
Condo Apartment	$183,493	$216,661	$235,000	$242,000	3.0%
NEW HOME MARKET					
Starts					
Total	2,008	2,363	2,420	2,225	-8.1%
Single-family	969	1038	1050	990	-5.7%
Semi	91	141	95	85	-10.5%
Townhouse	206	122	165	150	-9.1%
Condo Apartment	600	1058	1065	950	-10.8%
Rental	142	4	45	50	11.1%
Complete & unoccupied (monthly average)					
Total	106	96	119	144	21.0%
Single-family & Semi	62	59	64	72	12.5%
Townhouse	21	15	20	22	10.0%
Condo Apartment	23	22	35	50	42.9%
Median New Home Price					
Single-family	$349,900	$399,000	$460,000	$485,000	5.4%
3 Bed. Townhouse	$258,450	$334,900	$350,000	$368,000	5.1%
2 Bed. Condo Apt	$267,500	$284,900	$289,000	$299,000	3.5%
RENTAL MARKET					
Vacancy Rate (Oct.)	1.1%	0.6%	0.9%	1.2%	
% Increase in apartment rents	2.5%	1.7%	3.0%	3.5%	
ECONOMIC OVERVIEW					
Mortgage Rate (3 yr.)	6.43%	5.65%	5.64%	6.00%	
Employment Growth	2.0%	1.6%	3.2%	2.2%	
Net Migration	2,080	2,200	2,700	3,050	

F = CMHC Forecast

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